

COUNTY OF LOS ANGELES – DEPARTMENT OF MENTAL HEALTH

F A C T S H E E T

**APPROVAL TO EXTEND THE REPAYMENT OF CASH FLOW ADVANCES
OF \$68,542 OWED BY ALCOTT CENTER FOR MENTAL HEALTH SERVICES
(SUPERVISORIAL DISTRICT 2)
(3 VOTES)**

SUBJECT

Request approval to enter into a repayment settlement agreement with Alcott Center for Mental Health Services, a Department of Mental Health Legal Entity contractor, to extend the repayment period of outstanding unearned cash flow advances.

REQUEST

Approve and instruct the Director of Mental Health, or his designee, to prepare a settlement agreement extending the recovery period of the outstanding unearned cash flow advances (CFA) totaling \$68,542 owed by Alcott Center for Mental Health Services (Alcott Center), for a period not to exceed eight months,

PURPOSE/JUSTIFICATION

Board approval of the recommended actions will extend the repayment period of outstanding unearned CFA for Alcott Center. Alcott Center has requested an extension to repay the outstanding unearned CFA over a period of eight months, in lieu of the three-month repayment period provided in their legal entity agreement. Alcott Center has indicated that the repayment of their outstanding unearned CFA over three months will have an immediate adverse fiscal impact on their operations. This extension will mitigate the adverse impact on Alcott Center, enhance the probability of recovery of funds and also avoid any potential adverse impact on the level and quality of services provided.

BACKGROUND

CFA is a disbursement of funds to the contractor for working capital purposes. Such advances are fiscal year specific and are made to provide funds for the contractor to operate during the period of time from the delivery of the services to DMH payment of the claims. The recovery of the CFA is made either as offsets to the contractor's reimbursement claims or by cash repayment.

On September 29, 2009, your Board authorized the Director of Mental Health to defer the recovery of CFA from certain contractors pending the State's completion of the FY 2007-08 Short-Doyle/Medi-Cal (SD/MC) cost report reconciliation and settlement.

In February 2010, DMH began the recovery process of CFA from all the contractors cited in the September 29, 2009 Board letter. However, Alcott Center indicated that it would not be able to repay the outstanding amount owed in three installments, as it would have an adverse cash flow impact. To avoid an adverse impact on Alcott Center and the mental health services they deliver, DMH and Alcott Center are requesting Board approval to enter into a repayment agreement over a period of up to eight months without interest. Additionally, DMH suspended recovery of the CFA owed by Alcott Center, pending your Board's approval of the repayment settlement agreement.

Effective upon your Board's approval, DMH will execute a repayment agreement with Alcott Center to allow it to make monthly repayments over a period not to exceed eight months. This proposed repayment period also allows sufficient time for Alcott Center to take actions to improve their financial condition without disruption to their current service delivery level. Alcott Center has also provided DMH with a comprehensive financial plan to support the repayment schedule and DMH has verified the reasonableness of the plan's assumptions and projections.

These actions will have no impact on DMH's net County cost for FY 2010-11 as they involve prior year activity in Fiscal Year 2007-08. Costs incurred in providing the CFA are expensed during the applicable fiscal years. Deferring the recovery of CFA places the adverse cash flow impact on the County instead of the providers. However, the adverse impact on the quality and amount of client services being provided by the contractor will be mitigated by avoiding their need to reduce expenditures further in order to absorb the financial impact of CFA repayment under the original terms.

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